

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



October 23, 2009

Parties of R.08-08-009:

Re: Very Short-term Price Reasonableness Benchmark Methodology

On June 18, 2009, the California Public Utilities Commission (Commission) adopted Decision (D.) 09-06-050, which set forth a Tier 2 advice letter or "fast-track" approval process for short-term renewables portfolio standards (RPS) contracts. The Decision authorized the Director of the Energy Division to develop a methodology to calculate a price reasonableness benchmark for procurement contracts for energy products for compliance with the RPS that have a duration of at least one month but less than 48 months.

On August 18, 2009, Energy Division staff distributed a data request with a proposed methodology and model for a price reasonableness benchmark for very short-term RPS contracts to the R.08-08-009 service list. The request solicited responses regarding the methodology, model, and process for use of benchmark and methodology in the approval process. On September 1, 2009 Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric Company responded to the data request.

Based on responses received, Energy Division staff made clarifications and modifications to the proposed methodology and model. The finalized methodology is attached to this letter and the associated final model (VShoT Model) is available on the Commission website:
<http://www.cpuc.ca.gov/PUC/energy/Renewables/procurement.htm>.

Any requests for Commission approval of very short-term RPS contracts through the "fast track" process shall use the attached price benchmark methodology and VShoT model to demonstrate compliance with the price reasonableness benchmark. The advice letter filing shall include a copy of the VShoT model and shall identify in the public section of the advice letter the calculated price reasonableness benchmark for the proposed contract.

If parties have any questions about this process, please contact Cheryl Lee at (415) 703-2167 or cnl@cpuc.ca.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Julie A. Fitch".

Julie A. Fitch
Director, Energy Division

Attachment: Price Reasonableness Benchmark Methodology for Very Short-term RPS Contracts

ATTACHMENT

Price Reasonableness Benchmark Methodology for Very Short-term RPS Contracts (1-48 Months)

Price reasonableness comparisons to the very short-term benchmark will be done in the same manner as comparisons to the MPR for long-term benchmarks. That is, a levelized all-in price shall be compared to the price benchmark.

- 1.) Obtain comparable forward market prices from Intercontinental Exchange's (ICE) Afternoon Power Settlements Report for the West Coast.¹
 - a. Forward market prices should be obtained from 5 different days – the day which the contract was executed and the four previous trading days.
 - b. Comparable market prices shall be based on the following contract characteristics: delivery point (e.g. NP-15)², product type (e.g. off-peak), and term (beginning and termination dates).
- 2.) Calculate forward market prices for each month of the contract from the average of the prices obtained from the five different trading days.
- 3.) Calculate a comparable levelized market price based on the average forward market prices for the contract term, contract delivery pattern, and total megawatt-hours (MWh).
- 4.) Determine the benchmark by calculating 150% of the comparable market price per MWh (Answer from step 3 multiplied by 150%). Compare this result to 90% of the 10-yr MPR value. The lesser of the two values is the appropriate value to be used as the price benchmark.
- 5.) Calculate the contract's levelized price based on the contract price, contract delivery pattern, and total MWh.
- 6.) Compare the contract's levelized price (answer from step 5) to the benchmark value (step 4). If the levelized contract price is less than or equal to the benchmark, then the contract meets the price contract price criterion of the very short-term RPS fast-track approval process.

¹ The daily settlement reports are distributed via e-mail. Requests to be added to the distribution list should be sent to: data@theice.com.

² Comparable delivery point is based on the closest trading hub (for which ICE provides data) to the contracted energy delivery point